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March 3, 1999

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ex Parte

Ms. Magalie R. Salas
Secretary
Federal Communication Commission
Room TW-A325, The Portals
445 Twelfth Street
Washington, D.C. 20554

Re: CC Docket No. 98-81, In the Matter of 1998 Biennial Regulatory Review—
Review of Accounting and Cost Allocation Requirements

CC Docket No. 98-137, In the Matter of 1998 Biennial Review—Review of
Depreciation Requirements for Incumbent Local Exchange Carriers

CC Docket No. 98-177/In the Matter of 1998 Biennial Regulatory Review—
Petition for Section 11 Biennial Review filed by SBC Communications Inc.,
Southwestern Bell Telephone Company, Pacific Bell and Nevada Bell

ASD Docket No. 98-97, In the Matter of United States Telephone Association
Petition for Rulemaking-1998 Biennial Regulatory Review

CC Docket No. 96-150, In the Matter of the Implementation of the
Telecommunications Act of 1996: Accounting Safeguards Under the
Telecommunications Act of 1996

RM 9341, Petition for Rulemaking to Amend Part 32 of the Commission's
Rules, Uniform System of Accounts for Class A and Class B Telephone
Companies to Adopt the Accounting for Computer Software Required by
Statement of Position 98-1

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Dear Ms. Salas:

In accordance with the Commission's rules, please be advised that on March 3, 1999, Mr. Pat Doherty, Ms. Marla Martin, Mr. John Schrotenboer and the undersigned, representing SBC Communications Inc. (SBC) met with Ms. Lisa Zaina, Deputy Chief of the Common Carrier Bureau, Mr. Bill Bailey, also of the Common Carrier Bureau and Mr. Andy Multz of the Accounting Safeguards Division. The purpose of the meeting was to discuss accounting simplification. A summary of the discussion is outlined in the attached.

SBC urges the Commission to take steps now, through the existing proceedings for the Biennial Review, to implement changes that will simplify the burdensome and costly accounting rules for all Local Exchange Carriers (LECs). At a minimum, the following can be and should be implemented now:

- Allow Class B accounting/reporting for all LECs
- Eliminate the Expense Matrix
- Allow LECs to establish expense limits for network plant accounts
- Allow for the aggregation of property record definitions to reduce the magnitude of records

In addition, SBC believes that other changes can be made in the near term to begin the transition process to reduce the burdensome and costly accounting rules and, thus, ultimately move toward full reliance on Generally Accepted Accounting Principles (GAAP) by the FCC for all carriers. However, if the FCC believes that these changes are not appropriate for consideration, now, within the existing proceedings established under the 1998 Biennial Review process, SBC urges the FCC to take immediate action to open a collaborative process and/or proceeding that includes specific timeframes for specific transitional steps that will simplify Part 32 and ultimately allow the FCC to fully adopt GAAP for all LECs.

Finally, SBC supports the inclusion of the FCC's recommendations for the accounting of software within CC Docket No. 98-81 so that SBC, and other LECs, may obtain, in a timely manner, any guidance the FCC believes it must provide with respect to its regulatory books and records.

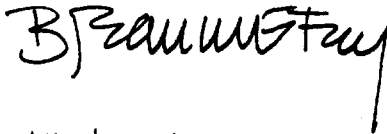
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An original and one copy of this letter and the attachments are being submitted. Acknowledgement and date of receipt of this transmittal are requested. A duplicate transmittal letter is attached for this purpose.

Please include this letter in the record of these proceedings in accordance with Section 1.1206(a)(2) of the Commission's Rules.

If you have any questions on this, please do not hesitate to contact Ms. Jeannie Fry at 202-326-8894.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Jeannie Fry". The signature is written in a cursive, flowing style with a long vertical line extending downwards from the end.

Attachment

**Biennial Review – Accounting/CAM Simplification
CC Docket 98-81
SBC Communications Inc.**

SBC and the LEC industry have proposed many streamlining modifications

- Proposals simplify the rule requirements and still allow overall Commission oversight .
- Price cap/relaxed cost regulation should permit some simplification of past rules established for the rate of return, rate case environment.
- The costs of complying with rules should always be weighed against the value generated by the resulting information.

**Accounting Rule Recommendations-
(Most significant)- Transition Steps to GAAP**

- **January 2000 Implementation-Part 32 Recommendations Achievable.***
 - Allow Class B accounting/reporting
 - Eliminate the Expense Matrix
 - Allow carrier flexibility in depreciation rates
 - Implement CAM procedural changes
- **January 2001 or 2002 Implementation***
 - Allow LECs to establish an expense limit for network plant.
 - Allow the aggregation of property record definitions to reduce the magnitude of records.
 - SBC maintains more than 40 million COE records today.
 - Eliminate the fair market value test against FDC cost. Utilize cost (FDC).
- **Above recommendations will not eliminate current Commission safeguards.**
 - Part 36 Separations - developed for Class B accounting.
 - Universal Service - based on forward looking costs which do not require Class A.
 - Part 64 CAM systems - structured by cost pools which can function under Class B.
 - Pole Attachment rates – can be calculated from subaccounts as done by class B companies today.
 - Price cap formulae - determine rates for BOCs not detailed cost-based rate cases.
 - Productivity Factors - can be calculated based on Class B and subaccount information.
 - ARMIS reports - can be reported in a Class B format.
 - Depreciation rates – determined by carriers will not impact customer rates.
 - Carriers filing LFAM calculations would bear the burden of demonstrating depreciation rates are reasonable.

Long-Term Goal – Accounting Rules

- **Long term recommendation is to utilize Generally Accepted Accounting Principles in lieu of Part 32.** SBC recognizes that a transition to GAAP would be a long term objective and that Part 32 would continue to be needed for some period of time.

* Implementation dates are suggested for an order adopted in 1999

**Biennial Review – Accounting/CAM Simplification
CC Docket 98-81
SBC Communications Inc.**

CAM Rules

- **CAM recommendations are targeted toward detailed procedural simplification. Accounting safeguards are not impaired.**
 - These suggestions can be instituted for the Year 2000 CAM reporting period.
- **Major recommendations follow.**
 - CAM audits – schedule the audit every two years covering 2 year segments instead of auditing every year. Utilize “attest” audit opinion in lieu of financial audit opinion.
 - Forecasting Common Network Investment – utilize actual current usage instead of a complicated 3 year forecasting formula.
 - Modify the \$1 million error threshold to apply toward meaningful reporting adjustments.
 - For Southwestern Bell Telephone, \$1 million represents less than 0.2% of the nonregulated revenues. This threshold should be determined on a GAAP type materiality benchmark i.e. per cent of revenue.